G-011/M-94-521 ORDER APPROVING CIP ADJUSTMENT, AS MODIFIED

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Marshall Johnson	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner

In the Matter of Peoples Natural Gas Company's Petition for Approval of an Annual Recovery Mechanism for Conservation Related Costs and Expenses and for Variance of the Fuel Clause Adjustment Rules

ISSUE DATE: October 17, 1994

DOCKET NO. G-011/M-94-521

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PROCEDURAL HISTORY

In May, 1993, the Minnesota Legislature authorized the Commission to permit a public utility to file rate schedules providing for annual recovery of the costs of energy conservation improvements. MN Laws 1993, Chapter 49.

On July 7, 1993, the Commission initiated a Conservation Improvement Program (CIP) Adjustment Implementation Study Group. The group met three times between July and September and achieved agreement on a substantial number of issues.

On November 8, 1993, the Study Group filed its "Report of the CIP Adjustment Implementation Study Group" which reflects those agreements. The Group suggested that it would be appropriate to "test" the implementation of the adjustment initially on one or two utilities.

On June 8, 1994, Peoples Natural Gas Company (Peoples or the Company) petitioned the Commission for an annual conservation improvement program (CIP) adjustment.

On June 22, 1994, the Minnesota Department of Public Service (the Department) file its comments.

On September 8, 1994, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

I. BACKGROUND

In 1993, the Minnesota legislature expanded the Commission's discretion with respect to recovery of energy conservation costs. The legislature amended Minn. Stat. § 216B.16, subd. 6b by adding the following sentence:

> The commission may permit a public utility to file rate schedules providing for annual recovery of the costs of energy conservation improvements.

Prior to this amendment it was not explicit that the Commission had authority to authorize recovery of these expenditures any way other than through rates adopted pursuant to a general rate case proceeding. In practice, this kind of recovery was limited to reimbursement for expenditures made sometimes years earlier. With conservation expenditures rising rapidly in response to the requirements of the Omnibus Energy Act, many utilities came to be carrying significant tracker balances for the extensive periods between general rate proceedings.

The 1993 amendment did not mandate annual recovery of energy conservation expenditures but did authorize the Commission to provide for such recovery of these expenditures. The legislature left it to the Commission to determine, on either a generic or case-by-case basis, whether it is good public policy to permit annual recovery of energy conservation costs and, if so, in what manner it will provide for such recovery.

To date, the Commission has been reviewing petitions to recover energy conservation costs on a case-by-case basis. On October 6, 1993, Minnesota Power and Light Company (MP) filed a request for a CIP adjustment and in a January 7, 1994 Order, the Commission granted MP's request. On March 9, 1994, Dakota Electric Association (Dakota or the Cooperative) petitioned for an annual recovery of conservation expenses and for a variance from the rules governing the fuel clause adjustment (FCA). On May 10, 1994, the Commission approved Dakota's requests.

II. PEOPLES' PROPOSAL

Peoples stated that as of March 31, 1994 it had an unrecovered CIP Tracker balance of $317,000 and expected to underrecover conservation costs at the rate of $204,900 per year. According to Peoples, the shortfall is attributable to several factors. First, subsequent to its most recent rate case in which a conservation cost recovery charge (CCRC) of $0.00867 was established, the Commissioner of Public Service approved an increased CIP budget for Peoples. In addition, sales volumes have been lower than were forecasted when the CCRC was calculated.

Peoples proposed to set the initial adjustment to recover the CIP Tracker Account deficit: the projected annual underrecovery plus carrying charges over a 20 month period beginning with August 1994, with a true-up beginning with the April 1996 billing cycle. Subsequent true-ups would occur annually thereafter.

Peoples proposed to apply its adjustment to customer bills as a surcharge per Mcf of gas combined with a Company's purchased gas adjustment (PGA) for a single adjustment entitled a "Resource Adjustment Charge".

Peoples proposed to allocate its CIP adjustment to its customer classes using the same cost allocation process which it used to allocate CIP costs in its last general rate case. Peoples included in its filing a proposed notice explaining the adjustment, which will also be sent to all customers in the first bill containing the adjustment. The Company also stated that it would use a bill insert to notify customers of annual changes in the level of the adjustment.

III. DEPARTMENT COMMENTS

The Department recommended that the Commission adopt all aspects of Peoples' proposal, with one modification in the calculation of the adjustment. The Department noted that the Company should not be including any projected underrecovery from the date of the implementation of the adjustment since the existence of the adjustment will eliminate underrecovery for those periods.

The Department proposed an alternative calculation which results in slightly lower total annual adjustment. The Commission finds that the Department's figure is correct.

IV. COMMISSION ANALYSIS

Peoples is proposing a slightly modified version of the charge per Mcf method outlined in the Implementation Study Group. The proposal actually allocates the total annual recovery amount to its customer classes in the same manner that CIP costs were allocated to set the Company's rates in its last rate case.

In its last rate case, Peoples' conservation program expenditures were underestimated by nearly 33 percent. Coupled with other deferrals which the Commission has approved for Peoples, disallowance of the requested adjustment could cause Peoples to seek a rate increase of nearly $3.5 million in 1996 based on deferred costs alone.[1] Recovery of conservation expenses on a

[1] Peoples has been authorized to defer significant other expenses, most notably its manufactured gas plant clean-up costs (approximately $2.5 million) and its farm-tap inspection

real time basis through a CIP adjustment could prevent excessive rate shock in the Company's next rate case. In addition, allowance of the proposed adjustment will avoid accumulating carrying charges and promote better matching of beneficiaries of its CIP and the payors for that program.

V. VARIANCE

The Commission's PGA Rules, Minn. Rules, Part 7825.2600 and its billing content rules, Minn Rules, Part 7820.3500 (K) require that the customer's bill show "a fuel or power adjustment clause separately itemized" and require that "the adjustment per mcf or the amount of the adjustment must be stated on the customer's bill." Peoples' proposal to combine the CIP adjustment and the PGA in a single line, therefore, requires a variance from those requirements.

The Commission will grant this variance. The criteria necessary to grant a variance are set forth in Minn. Rules, Part 7830.4400. The Commission finds that the circumstances of this case clearly warrant such a variance, as the following analysis demonstrates:

The amount of any CIP adjustment must be reflected in a customer's bill, but there is considerable weight to the contention that a CIP adjustment should not be itemized *separately* on the bill. In addition, the underlying purpose of the rule requirements (that customers have adequate information to understand their bills) will be met in that the Company intends to 1) fully explain the new adjustment to customers and 2) provide an itemized calculation of the adjustment for customers who ask for one.

In these circumstances, insisting that the figure appearing on the bill for PGA not reflect the CIP adjustment would be excessive and combining the CIP adjustment and the PGA into one

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costs ($103,000/year).

figure on the bill, on the contrary, would be in the public interest. Finally, the requirements at issue are strictly a creation of rule and, as such, may be properly varied, as provided for in Minn. Rules, Part 7830.4400.

VI. COMMISSION ACTION

Based on the foregoing analysis, the Company's proposal, including the variance and as modified by the Department, will be approved. Peoples will be permitted to implement a CIP adjustment, as proposed by the Company and modified by the Department.

ORDER

1. Peoples' proposal for a Conservation Improvement Program (CIP) adjustment, as modified by the Department, is approved.

2. Peoples' request for a variance from Minn. Rules, Parts 7825.2600 and 7820.3500 (K) in order to combine the CIP Adjustment with the PGA in a single line on the bill is granted.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)